

Chapter Four: Arriving at More Accurate Rebate Calculations

Background

The Committee also devoted attention to the examination of the current County rebate formulas and their implementation for accuracy, fairness, and methodological integrity. As identified in the preceding analyses of services, the Committee found numerous omissions in Montgomery County's rebate calculations that result in the understatement of the true costs to the County, were the County to provide the duplicated services to Takoma Park. Using conventional methods of financial analysis employed by academic experts, the Committee found that the County's rebate to the City was significantly less than the City's actual costs for delivering these and other duplicative services, and far less than the amount the County would likely spend if the City elected not to provide those services.

In FY05, Montgomery County paid a total \$3.1 million to the City of Takoma Park in rebate for duplicated services. According to the Committee's calculations, a more accurate County rebate to Takoma Park should have been no less than \$4.1 million, and as much as \$7.8 million. The range in the normative rebate arises through the use of alternative analytical approaches.

The County's disinclination to take into account its expenses for administration and the maintenance of facilities associated with the delivery of services contributes in part to the reduction of its rebate paid to Takoma Park. The County assumes that the increase in service delivery to Takoma Park would not result in any greater costs in its administrative and overhead costs. The Committee also found additional methodological flaws in the County's rebate formulas. The Committee recommends that Takoma Park negotiate with the County to correct these defects and calculate a rebate that accurately delivers Takoma Park taxpayers full and fair relief from double taxation.

Third Party Review of Rebate Calculations: A Necessary Reform

One of the greatest shortcomings of the double taxation framework in the state of Maryland is the degree to which a county is the unchallenged authority on the tax setoff calculation and the unavailability of any recourse to a municipality to contest the county's determination. Current law fails to afford any review or enforcement mechanism to municipalities to assure a full and fair tax setoff. In Maryland, counties may choose to compensate municipal taxpayers for double taxation either by levying a lower county property tax rate or by granting a direct payment as Montgomery County does. Current law fails to provide any recourse to municipalities in either instance.

While Maryland law sets out procedures by which a municipality may request and negotiate double taxation relief from the county and be guaranteed at least a minimum level of response from the county, the law affords only the limited opportunity to municipal government representatives to testify before the county governing board to discuss or contest the level of the proposed tax setoff. Once the county has made its final determination on the level of the tax setoff, there is no legal recourse, judicial appeal or third-party arbitration process available to challenge the county's setoff determination.

The Committee considers the lack of legal recourse to contest county setoff determinations as a serious flaw in the Maryland statutory framework governing double taxation. The Committee urges the Takoma Park City Council, in league with other Maryland municipalities, to seek reform that provides municipalities the opportunity to challenge through arbitration or judicial review the accuracy and comprehensiveness of county tax setoff determinations.

IGS Methodology

The Committee arrived at the range of accurate rebates through the application of methodologies on tax setoffs developed by the Institute for Governmental Service (IGS) at the University of Maryland at College Park.²⁶

The IGS has formulated two general approaches to calculate tax differentials that include rebate amounts. The first method, referred to as the "County Expenditures for Parallel Services" approach, assesses the costs encumbered by the county were it to deliver the duplicated service. This is the general approach that Montgomery County has taken in applying state law to its payment of rebates to municipalities within the county. The approach uses county revenue and expenditure data to calculate what it would spend in the absence of city delivery of the respective service.

The second method, referred to as the "Estimate of County Cost To Provide Services" approach, assesses city expenditures. This method is based on city, not county, expenditures to estimate what the county would spend, again in the absence of city delivery of the respective service. This approach is not used in Montgomery County to calculate rebates, but it has been calculated to estimate costs by other Maryland cities, such as Annapolis and Salisbury.

Each approach has strengths and weaknesses. The general advantage of the "county cost approach" is that it measures more directly what the county would pay to provide the service, and incorporates the economies of scale and the level of service that the county would provide. The major disadvantage is that it does not take into account demographic, economic and geographic differences between the city and the county that may elevate service costs. In other words, the county cost approach assumes that the city is just like the rest of the county and accounts for no differences in the need for and delivery of services to the city's population. This is a significant shortcoming, given the social and economic fabric of Takoma Park, as compared to the rest of Montgomery County. The demands placed

²⁶ Founded in 1959 as a public service unit of the University of Maryland College Park, the Institute for Governmental Service works with governments and community organizations to enhance governance in the state through education and training, applied research, and technical assistance.

upon the character and quality of governmental services by Takoma Park's population may be distinctly different – and more costly – than that placed upon the remainder of Montgomery County.

Alternatively, the “city expenditure approach” more accurately accounts for the service delivery of the city. The major disadvantage is that it fails to take account of the economies of scale residing in service delivery to larger areas, as well as the actual level of service that the county provides.²⁷

Both the “county cost” and “city expenditure” approaches, as formulated by IGS, recognize and include general government overhead, administrative and facility expenses, and capital budget costs. These expenses are not generally included in calculating Montgomery County rebates. The Committee finds this to be a significant shortcoming in the rebate framework employed by Montgomery County. Administrative, facility and capital costs are part of the full costs of providing a service. The County's omission of these real and necessary expenditures of governmental service delivery belies their true cost.

Both IGS approaches also take into account the impact of non-tax supported revenues, such as fees and federal or state grants, in reducing costs. Although Montgomery County recognizes the receipt of non-tax supported revenues in adjusting its rebate calculations, the Committee finds that greater care should be used in distinguishing earmarked city and county revenues to avoid double-counting deductions.

Estimating More Accurate Rebates

The Committee analyzed FY05 budget data for Montgomery County and the City of Takoma Park, including data underlying the County's rebates to Takoma Park, and applied both the IGS “county costs” and the “city expenditures” approaches. The analysis revealed that the County's rebates fall far short of compensating the City for the true costs of the duplicated services provided by Takoma Park. This fact is evident in a series of omissions and inaccuracies in the calculated rebates. These issues are discussed in each of the rebates below. The table below shows the current rebates along with both the county cost estimate, and the city expense estimate.

Table 12. Rebate Calculations by “County Cost” and “City Expense” Methodologies

Department Rebate	Actual Rebate	County Cost Method Estimate	City Expense Method Estimate
Police Rebate	\$2,557	\$3,288	\$4,512
Crossing Guards	\$122	\$128	\$153
Roads Maintenance	\$340	\$582	\$975
Parks	\$72	\$76	\$316
Housing	\$-	\$-	\$887
Recreation	\$-	\$-	\$945
Total Rebate	\$3,090	\$4,074	\$7,787
Based on FY 2005 Budgeted Expenses (in thousands of dollars)			

²⁷ In reality, county service levels may actually be, and sometimes are, higher than those of cities. When a city provides a higher level of service, the county and its residents also benefit, both directly and indirectly.

Police

The County's rebate for police services -- \$2.5 million in FY05 -- is the largest rebate paid to the City. The formula governing the calculation of the rebate is contained in the memorandum of understanding (MOU) negotiated by Montgomery County and the City of Takoma Park in 2002. While Montgomery County generally applies the "county costs" approach to its calculation of municipal rebates, the MOU also takes into account distinct differences in police service delivery to Takoma Park, compared to the rest of Montgomery County. This comes about through the use of a "weighted workload model" to project the number of patrol officers the County would assign to Takoma Park based on adjusted calls for service and other data. The police MOU also recognizes vehicle and equipment costs for officers.

However, as noted previously in this report, the County police rebate fails to recognize a range of costs associated with police services. These include County administrative and capital costs, as well as the expense associated with the maintenance of police stations and central office space. In addition, the County fails to take into account the cost of managing, supervising and overseeing police operations in Takoma Park. As noted previously in this report, the County police rebate formula recognizes the personnel costs associated only with officers up to the rank of sergeant. The Committee believes that more accurate recognition of the supervisory requirements associated with Takoma Park policing requirements recognition of supervisory and management costs up to the higher rank of lieutenant.²⁸ According to the Maximus Report, the rebate should include officers up to the rank of lieutenant. If these costs were included in the rebate calculation the rebate would increase by about \$157,000. Inaccuracies in work load data also contribute to an underestimate of the costs the County would incur. The amount of the underestimate, however, cannot be quantified accurately without significant amount of effort. Consequently no estimate of this inaccuracy is provided.

Based on the overall administrative costs reported in the County's FY 2005 budget, the Committee finds that the County police rebate should be increased by \$495,000 for police administration and general government overhead. The rebate should also be increased by \$79,000 to account for police expenditures in the County's FY 2005-2010 Capital Improvement Plan.

Road Rebate

The Committee's assessment of the County's road rebate was made difficult by the way in which the County calculation combines disparate costs, without identification of the source or character of the costs themselves. The Committee was unable to ascertain whether the County's underlying data accounts for capital and administrative costs, as well as relevant program costs.

The County road rebate formula grossly underestimates of the cost of maintenance of the City's two bridges. The County formula assumes it would cost only \$16 a year to maintain a bridge. Information from Montgomery County's Capital Improvement Plan acknowledges that the County

²⁸ The Committee's views on the recognition of the lieutenant level as the appropriate benchmark are supported by the study of Rockville policing requirements prepared in January 2004 for the City of Rockville by MAXIMUS, Inc., a consulting firm.

actually spends about \$19,500 per bridge in the remainder of the county each year. Moreover, County recognition of bridge maintenance costs for the rebate fails to account for any capital costs associated with bridge construction. After recognition of federal and state aid for bridge maintenance, the County cost per bridge drops to about \$11,000. The City should get an additional \$22,000 in the rebate for maintaining its bridges.

To estimate the county costs for road maintenance, the tax supported general fund expenditures for transportation in the County operating budget were totaled, and divided by the mileage of County roads to determine the County costs per mile. This amounts to \$12,195 per mile. This figure does not include the costs of county-wide traffic improvement projects in the county's capital budget. When the costs of traffic improvement projects and general government administrative expenses are recognized, a more accurate of the County's rebate to Takoma Park for roads comes to \$582,000.

Parks Rebate

The County rebate for park maintenance in FY 2005 was \$71,740. Despite the Committee's due diligence, County officials were unable to explain how the County's rebate for park maintenance is calculated. The Committee was unable to find any reliable method for estimating County costs for maintaining parks.

Consequently, the Committee's rebate calculation of County park maintenance only adds general administrative expenses, about \$4,000, to the current rebate. Since the county based cost lacks any substantive justification, the City based expenditure appears to be more reliable. The City based cost with administrative costs included is \$315,684.

Crossing Guard Rebate

According to Takoma Park city staff reports to the Committee, the crossing guard rebate of \$122,000 appears to be close to the actual cost of providing the service. The only adjustment based on our methodology is to include about \$7,000 to cover administrative expenses.

Recreation Rebate

As noted in the preceding analysis of recreation services, the County has gradually phased out its delivery of recreational programming and services within Takoma Park. Instead, the County relies primarily on the City to provide local recreational programs. Despite this development, the County provides no rebate for the recreation services provided by the City. Accordingly, the Committee recommends that the City pursue withdrawal from the application of the County's "special area tax" component of the property tax earmarked for recreational services. If withdrawal is not accomplished, then the County's reimbursement of the City for recreational services is only fair and appropriate. The Committee has not calculated an appropriate rebate figure.

Housing Rebate

It has also been noted that the City provides parallel services for affordable housing, landlord and tenant affairs, and community development. The County would have to provide these services if the City did not. Consequently, the County should provide a rebate. However, the Committee is unable to provide an estimate of the County cost for housing services.

City Based Costs

To calculate the rebates based on the IGS city expense approach, the Takoma Park City Budget for FY 2005 was used to determine the costs of all parallel services, including recreation and housing. Administrative and capital costs related to each parallel service were included. In accordance with the IGS approach the amount for grants, fees, and other non-tax revenues related to parallel services was subtracted from the estimated rebate amounts. Based on this method the total City based rebate should be \$7.8 million. It includes rebates for recreation and housing services for the reasons explained above.